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SUBJECT: TINDEMAN'S GOVERNMENT FIDDLES WITH PRICE INDEX AS
INFLATION CONTINUES

SUMMARY. AT END OF MARATHON SESSION JULY 30 CABINET DECIDED
TO LIMIT INCREASE IN CONSUMER PRICE INDEX FOR MONTH OF JULY
BY CUTTING IN HALF ABNORMAL INCREASE CAUSED BY NEW POTATOES
WHICH ARRIVED ON MARKET THREE WEEKS LATE. THIS UNUSUAL DECISION
WENT COUNTER TO ADVICE GIVEN BY INDEX COMMISSION REPRESENTING
EMPLOYERS, FARMERS, WORKERS AND PRIVATE EXPERTS. ONLY EMPLOYERS
FEDERATION APPROVED GOVERNMENT PROPOSAL TO DISREGARD POTATO
INCREASE. GOVERNMENT AND EMPLOYERS HAVE SOUGHT TO HOLD DOWN
INDEX TO KEEP AUTOMATIC WAGE INCREASES FROM GETTING OUT OF HAND
SINCE ALMOST ALL WAGES AND SOCIAL ALLOWANCES ARE TIED TO PRICE
INDEX IN BELGIUM. THEY HAVE CALLED FOR REVISING CURRENT
SYSTEM OF AUTOMATIC INDEXING, BUT SO FAR HAVE NOT MADE ANY
SPECIFIC PROPOSALS TO UNIONS WHICH ARE ADAMANTLY OPPOSED
TO ALTERING PRESENT SYSTEM. NEVERTHELESS, ALL PARTIES CONCERNED
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SEE NEED FOR REVISING PRICE INDEX ITSELF AND LATEST DEVELOP-

MENT MAY SERVE TO ACCELERATE THIS PROCESS. REVISED INDEX NOT SCHEDULED TO GO INTO EFFECT UNTIL JANUARY, 1977. GOVERNMENT MAY NOW PUSH FOR NEW INDEX BY JANUARY, 1976. HOWEVER, TO DO THIS IT WILL NEED FULL COOPERATION OF UNIONS. LATTER IS UNLIKELY UNLESS TINDEMANS CAN BRING SOCIALISTS INTO HIS COALITION. END SUMMARY. TKA IN BELGIUM CONSUMER PRICE INDEX HAS FAR-REACHING IMPORTANCE

SINCE ALMOST ALL WAGES AND SALARIES IN BOTH PUBLIC AND PRIVATE SECTOR ARE AUTOMATICALLY TIED TO INDEX. A TWO-POINT RISE IN INDEX SETS OFF CORRESPONDING INCREASE IN WAGES AND SOCIAL ALLOWANCES. THE EMPLOYERS FEDERATION IN THE PAST SIX MONTHS HAS CALLED FOR REVISION OF THIS SYSTEM, POINTING TO CURRENT 12.5 PERCENT ANNUAL INFLATION RATE, AND CHARGING THAT RISING WAGE COSTS

ARE PRICING BELGIUM OUT OF COMPETITION IN MANY INDUSTRIES. RECENTLY GOVERNMENT OFFICIALS HAVE ECHOED THIS CLAIM AND HINTED AT NEED FOR REVISION OF INDEXING SYSTEM. THESE CALLS HAVE BEEN FLATLY REJECTED BY NATIONAL LABOR CENTERS WHICH HAVE IMPORTANT POLITICAL INFLUENCE IN BELGIUM. ALL PARTIES HAVE AGREED THAT PRICE INDEX ITSELF IS IN NEED OF REVISION, HOWEVER. PROCESS WAS BEGUN IN 1973 TO REVISE INDEX AND EXPERIMENTAL INDEX HAS BEEN TESTED FOR PAST YEAR. GOVERNMENT PUSHING FOR INTRODUCTION NEW INDEX BY LATE THIS YEAR, BUT SO FAR THERE IS NO AGREEMENT ON NUMBER OR NATURE OF ITEMS IN MARKET BASKET. EMPLOYERS WANT OVER 400 ITEMS IN INDEX WHILE UNIONS WANT TO LIMIT IT TO 200 ITEMS. LATTER HAVE NOT AGREED WHICH ITEMS SHOULD BE INCLUDED BUT WANT MORE OF COST OF LIVING FACTORS SUCH AS HOUSE RENT, TAXES AND PHARMACEUTICALS INCLUDED.

2. UNDER CURRENT INDEX POTATOES REPRESENT ALL FRESH VEGETABLES AND NON-TROPICAL FRUIT. IN JULY NEW POTATOES WHICH SHOULD HAVE COME ON THE MARKET IN JUNE, CAUSED SHARP RISE IN THIS SEGMENT OF INDEX WHICH WOULD HAVE CAUSED ENTIRE INDEX TO RISE BY 2.12 POINTS, DESPITE PARTIAL PRICE FREEZE NOW IN FORCE. THIS WOULD HAVE BEEN SUFFICIENT TO SET OFF SUBSTANTIAL WAGE INCREASES IN MOST INDUSTRIES IN BOTH PUBLIC AND PRIVATE SECTOR. IT IS ESTIMATED A ONE-PERCENT INCREASE IN INDEX RESULTS IN ADDITIONAL

VLION BELGIAN FRANC EXPENDITURE FOR GOVERNMENT.
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MINECON AFFAIRS DECIDED TO AVOID THIS NEW STIMULUS TO INFLATION BY EXCLUDING SEASONAL INCREASE IN PRICE OF NEW POTATOES GOVERNMENT FROM INDEX THIS MONTH. AT JULY 30 MEETING OF INDEX COMMISSION, COMPOSED OF REPRESENTATIVES OF EMPLOYERS, TRADE UNIONS, FARMERS, AND PRIVATE EXPERTS, ONLY EMPLOYERS FEDERATION SUPPORTED THIS PROPOSAL. OTHER PARTICIPANTS ARGUED THAT THIS WAS UNJUSTIFIED TAMPERING WITH INDEX, CLAIMING AVERAGE PRICE OF VEGETABLES INCREASED 55 PERCENT IN LAST TWO YEARS WHILE POTATOES HAVE

GONE DOWN BY 33 PERCENT. NEVERTHELESS, MINECON AFFAIRS PRESSED A COMPROMISE PROPOSAL UPON COUNCIL OF MINISTERS, SUGGESTING ONLY HALF OF JULY POTATO PRICE UNCREASE BE FIGURED INTO INDEX. BY THIS CALCULATION INDEX WOULD INCREASE ONLY 1.39 POINTS. COMPROMISE STILL TRIGGERS WAGE INCREASES FOR MOST BELGIAN WORKERS. EVEN SO, NATIONAL UNIONS HAVE DENOUNCED IN THREATENING TERMS THIS "TAMPERING" WITH THE INDEX. EMPLOYERS ARE REPORTEDLY ALSO UNHAPPY WITH GOVERNMENTS'S HALF MEASURE.

3. COMMENT: WITH TINDEMANS GOVERNMENT ALREADY STRUGGLING TO HOLD DOWN GROWING BUDGET DEFICITS (SEPTAL) AND STUBBORNLY HIGH INFLATION, IT HAS GOOD REASON TO WANT TO LIMIT INCREASES IN PRICE INDEX. INDEXATION SYSTEM WAS IN FACT SUBJECT OF PROLONGED ATTENTION AT OECD/EDRC REVIEW OF BELGIUM ECONOMY LAST MONTH, AND FINAL OECD SURVEY WILL STRONGLY RECOMMEND ITS ADJUSTMENT TO AVOID SERIOUS POSSIBILITY OF HEIGHTENED INFLATION AND DETERIORATION BELGIUM'S VITAL TRADE BALANCE IN 1976. FINAL REPORT WAS REVIEWED AND APPROVED BY GOB OFFICIALS WHO NO DOUBT INTEND TO USE IT AS AMMUNITION AGAINST LABOR OPPOSITION.

4. INDEXING IN SUCH AN ACCEPTED INSTITUTION IN BELGIUM, HOWEVER, THAT MODIFYING SYSTEM WITHOUT ACQUISENCE OF ALL PARTIES CONCERNED CAN HAVE POLITICAL REPERCUSSIONS. COMPROMISE ON POTATO PRICE, HOWEVER JUSTIFIED, MAY MAKE IT MORE DIFFICULT FOR TINDEMANS GOVERNMENT TO PUSH AHEAD EVEN WITH MUCH-NEEDED REVISION OF INDEX. ANY REVISION WILL REQUIRE AGREEMENT OF THE TWO NATIONAL UNIONS. WITH SOCIALIST PARTY IN OPPOSITION, SOCIALIST TRADE UNION FGTB IS UNLIKELY TO ASSIST TINDEMANS GOVERNMENT'S EFFORTS TO RESOLVE INDEXING PROBLEMS. FIRESTONE

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